UNION BANK OF CALIFORNIA
ECONOMIC UPDATE: CALIFORNIA

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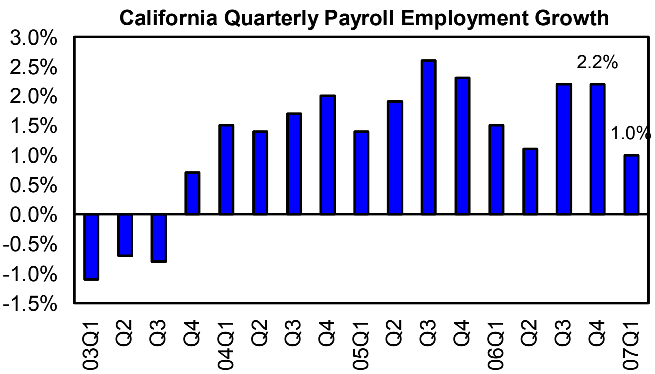
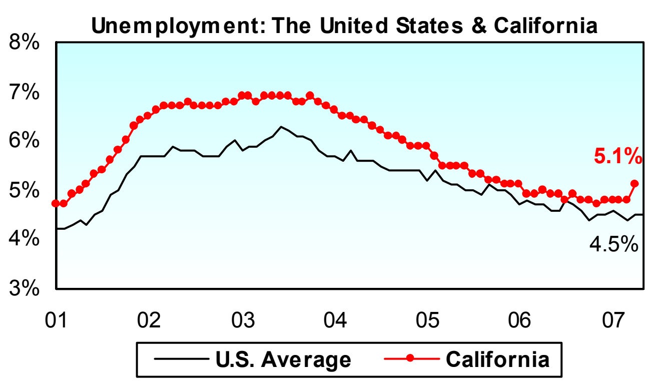
Jobs in California: Why the Statewide Statistics May Not Tell the Whole Story

The latest report from the California Employment Development Department (EDD) shows that labor market conditions in the Golden State are generally stable, but growth is slowing. In April 2007, the state added 7,400 nonfarm payroll jobs. This gain was much smaller than in the previous two months; nonfarm payroll employment increased by 23,600 and 17,000 jobs in February and March, respectively.



Seasonally adjusted annualized growth. Source: Bureau of Labor Statistics (BLS).

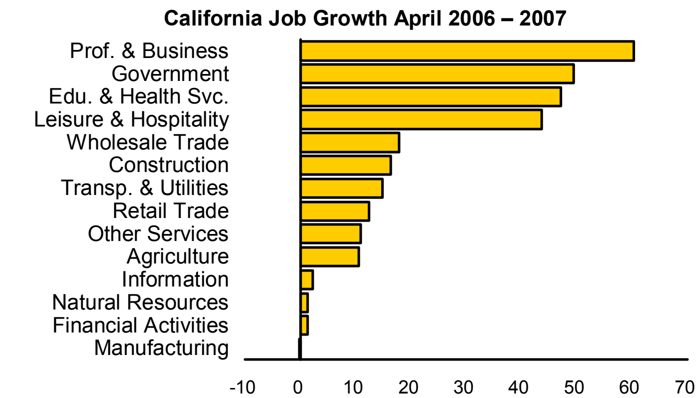
Job growth slowed in the first quarter.
Based on the revised March employment data in the abovementioned report, employment growth moderated to 1.0% during the first quarter of 2007, mainly due to the loss of 10,400 jobs in January. As you see in the chart above, growth in the first quarter was significantly smaller than the 2.2% growth recorded during the second half of 2006.



Seasonally adjusted data. Source: EDD and BLS.

The slower pace of job growth raised California's unemployment rate to 5.1% in April 2007, from 4.8% in March. (See the chart above.) The April rate was virtually unchanged from 5.0% a year earlier, but higher than the national average of 4.5%. The number of Californians unemployed was 934,000, an increase of 41,000 since April last year, and up 58,000 from March 2007.

In terms of employment by industries, the service sector—including professional and business services, educational and health services, leisure and hospitality, and others—accounted for the bulk of job increases since April 2006. (See the chart below.) As a reflection of the improved financial condition of the state government, job growth in the government sector has also been robust. Manufacturing was the only sector that lost jobs (-200) over the same period.



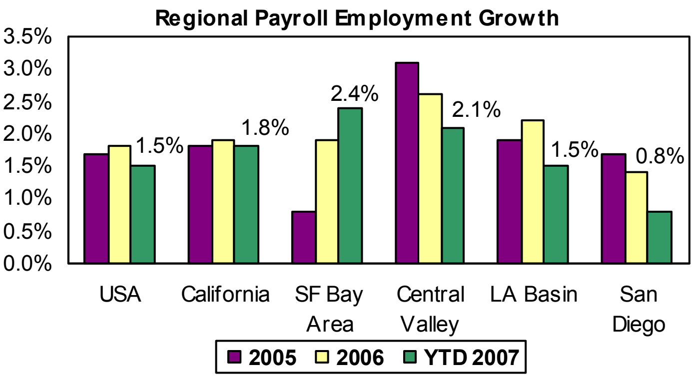
Unit: Thousand jobs. Not seasonally adjusted. Source: EDD.

Southern California slowed.
These figures suggest gradual deceleration of the state's economy, not a dramatic slump. But the statewide numbers may not be giving us the whole truth, because different regions in California often go through business cycles with significant leads and lags.

The chart on the next page shows annual employment growth since 2005 in the United States, California, and various regions within the state. The year-to-date 2007 figure is a comparison between the first four months in 2007 and the same period a year earlier.

Statewide growth during the first four months of this year was 1.8%, down slightly from the 1.9% annual growth in 2006. However, more dramatic changes in employment growth rates were observed on the regional level.

The San Francisco Bay Area (which in this chart includes nine counties around the bay plus San Benito County) continues to accelerate. This region was mired in a dot-com recession from 2001 through 2004, but the recent tech-sector recovery fueled growth there. Within the region, growth was uniformly strong in the Silicon Valley, San Francisco County, and the North Bay region. The East Bay region, which includes Alameda and Contra Costa Counties and borders on the Central Valley, was the only area with a growth rate (+1.7%) below the statewide average.



Not seasonally adjusted. Source: BLS.

Job growth has slowed across Southern California, in both the five-county Los Angeles Basin and San Diego County. Some of this deceleration was undoubtedly brought on by the end of the housing boom. The construction sector is still adding jobs, but more slowly than in 2005 and the first half of 2006.

The slowdown has been most noticeable in Orange, Riverside, and San Bernardino Counties. The housing slump in these counties not only affected the construction industry, but also the financial sector. In Orange County, the well-publicized demise of some subprime mortgage lenders led to a reduction of 2,000 "nondepository credit intermediation" (read "mortgage lending") jobs since April 2006.

The Central Valley shows a different north-south pattern. Along the coast, the San Francisco Bay Area is performing better than its southern counterpart, the Los Angeles Basin, but a different north-south pattern has emerged in the Central Valley (including eight counties along Interstate 5 between Stockton and Bakersfield). The Valley, with its year-to-date growth of 2.1%, has lost momentum since its spectacular performance in 2005. Among the region's more populous counties, the southern ones—Kern (+3.0% employment growth so far in 2007) and Tulare (+2.1%)—are performing considerably better than the northern counties—San Joaquin (+1.3%) and Stanislaus (+0.4%). Fresno County, located in the middle, has a mid-range growth rate of 1.8%.

The pace of employment growth in these counties is highly correlated with local housing market conditions. The Office of Federal Housing Enterprise Oversight recently reported that one-year home price appreciation as of the first quarter 2007 was positive 3.8% in the Bakersfield Metropolitan Statistical Area (Kern County) and positive 3.0% in the Visalia-Porterville MSA (Tulare County), but was negative 4.4% in the Modesto MSA (Stanislaus County) and negative 4.0% in the Stockton MSA (San Joaquin County).

Local housing market conditions are the key. As we have seen so far, regional economies within the state are experiencing more dramatic shifts in economic conditions than the statewide statistics suggest. This is no surprise given the state's size and economic diversity.

In addition, local economic conditions heavily reflect local housing market conditions, and vice versa (i.e., the housing market mirrors the local economy). A quick review of recent housing data shows that vast regional differences also exist among various markets in California.

Generally speaking, coastal urban markets, such as the San Francisco Bay Area and Los Angeles, have fared well, with firmer home prices and fewer mortgage delinquencies and foreclosures. On the other hand, inland markets, including Sacramento, the Central Valley, and the Inland Empire region, are experiencing price decreases and serious mortgage-related problems. To stay abreast of the state's economic conditions in coming months, we need to pay attention to both statewide statistics *and* local economic and housing data.

Keitaro Matsuda, Senior Economist
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Economic Forecast – June 2007

UNITED STATES	2005	2006	2007	2008
Real GDP Growth (%)	**3.2**	**3.3**	2.0	3.2
Unemployment (%)	**5.1**	**4.6**	4.6	4.8
Nonfarm Employment Growth (%)	**1.7**	**1.9**	1.3	0.9
CPI Change (%)	**3.4**	**3.2**	2.4	2.3
Federal Funds (%)	**3.2**	**5.0**	5.2	4.8
CALIFORNIA				
Real GDP Growth (%)	**4.3**	4.1	2.9	3.4
Nonfarm Employment Growth (%)	**1.8**	**1.9**	1.3	0.9
Personal Income Growth (%)	**5.3**	**6.4**	6.3	5.9

Bold: Actual. Gross State Product is now called "Gross Domestic Product (GDP) by State" by the U.S. Bureau of Economic Analysis which produces the data.